

SKYLINE CORP
Form 10-K
July 26, 2013
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended May 31, 2013

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 1-4714

SKYLINE CORPORATION

(Exact name of registrant as specified in its charter)

Indiana

(State or other jurisdiction of

incorporation or organization)

P. O. Box 743, 2520 By-Pass Road

Elkhart, Indiana

(Address of principal executive offices)

35-1038277

(I.R.S. Employer

Identification No.)

46515

(Zip Code)

Registrant's telephone number, including area code:

(574) 294-6521

Securities registered pursuant to Section 12 (b) of the Act:

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Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$.0277 Par Value	New York Stock Exchange

Securities registered pursuant to section 12 (g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or an amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the common stock held by non-affiliates of the registrant (6,853,780 shares) based on the closing price on the New York Stock Exchange on November 30, 2012 was \$28,100,498.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

	Shares Outstanding
Title of Class	July 22, 2013
Common Stock	8,391,244

DOCUMENTS INCORPORATED BY REFERENCE

Title	Form 10-K
Portions of the Proxy Statement for the 2013 Annual Meeting of Shareholders to be held September 23, 2013	Part III, Items 10 - 14

Table of Contents**FORM 10-K****DOCUMENTS INCORPORATED BY REFERENCE**

Certain information required to be included in Part III of this Form 10-K is also included in the registrant's Proxy Statement used in connection with its 2013 Annual Meeting of Shareholders to be held on September 23, 2013 ("2013 Proxy Statement").

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PART I

Item 1. *Business.*

General Development of Business

Skyline Corporation was originally incorporated in Indiana in 1959, as successor to a business founded in 1951. Skyline Corporation and its consolidated subsidiaries (the Corporation) designs, produces and markets manufactured housing, modular housing and recreational vehicles (travel trailers, fifth wheels and park models) to independent dealers and manufactured housing communities located throughout the United States and Canada. Manufactured housing represents homes built according to a national building code; modular housing represents homes built to a local building code.

The Corporation, which is one of the largest producers of manufactured and modular housing in the United States, sold 1,851 manufactured homes and 370 modular homes in fiscal 2013.

The Corporation's housing products are marketed under a number of trademarks. They are available in lengths ranging from 30' to 76' and in singlewide widths from 12' to 16', doublewide widths from 18' to 32', and triplewide widths from 36' to 46'. The area of a singlewide ranges from approximately 400 to 1,200 square feet, a doublewide from approximately 700 to 2,400 square feet, and a triplewide from approximately 1,600 to 2,900 square feet.

The Corporation also sold 4,336 recreational vehicles in fiscal 2013, which are sold under a number of trademarks for travel trailers, fifth wheels and park models.

Financial Information about Segments

Net sales, operating results and total assets for the housing and recreational vehicle segments are included in Note 15, Industry Segment Information, in the Notes to Consolidated Financial Statements included in this document under Item 8.

Narrative Description of Business

Principal Products and Markets

The Corporation's homes are marketed under a number of trademarks, and are available in a variety of dimensions. Manufactured housing models are built according to standards established by the U.S. Department of Housing and Urban Development. Modular homes are built according to state, provincial or local building codes. Each home typically includes two to four bedrooms, kitchen, dining area, living room, one or two bathrooms, kitchen appliances, central heating and cooling. Custom options may include but are not limited to: exterior dormers and windows; interior or exterior accent columns; fireplaces and whirlpool tubs. Materials used to construct a manufactured or a modular home are similar to those used in site-built housing. The Corporation also sells homes that are Energy-Star compliant.

The Corporation's recreational vehicles include travel trailers, fifth wheels and park models. Travel trailers and fifth wheels are marketed under the following trademarks: Aljo; AlumaSky; Koala; Layton; Mountain View; Nomad; Skycat; Texan; Wagoneer; Walkabout; Park models are marketed under the following trademarks: Cabin Series; Cedar Cove; Kensington; Shore Park Homes; Stone Harbor; and Vacation Villa. The Corporation's recreational vehicles are intended to provide temporary living accommodations for individuals seeking leisure travel and outdoor recreation. A recreational vehicle typically includes sleeping, kitchen, dining and bath areas.

The principal markets for manufactured and modular housing are the suburban and rural areas of the continental United States and Canada. The principal buyers continue to be individuals over the age of fifty, but the market tends to broaden when conventional housing becomes more difficult to purchase and finance.

The recreational vehicle market is made up of primarily vacationing families, traveling retired couples and sports enthusiasts pursuing four-season hobbies.

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Item 1. Business (Continued). Principal Products and Markets (Continued)

The Corporation provides the retail purchaser of its homes with a full fifteen-month warranty against defects in design, materials and workmanship. Recreational vehicles are covered by a one-year warranty. The warranties are backed by service departments located at the Corporation's manufacturing facilities and an extensive field service system.

The amount and percentage of net sales contributed by the housing and recreational vehicle segments is noted in Items 7 and 8.

Method of Distribution

The Corporation's homes are distributed by approximately 190 independent dealers at 310 locations throughout the United States and Canada, and recreational vehicles are distributed by approximately 200 independent dealers at 430 locations throughout the United States and Canada. These are generally not exclusive dealerships and it is believed that most dealers also sell products of other manufacturers.

The Corporation's products are sold to dealers either through floor plan financing with various financial institutions or on a cash basis. Payments to the Corporation are made either directly by the dealer or by financial institutions, which have agreed to finance dealer purchases of the Corporation's products. In accordance with industry practice, certain financial institutions which finance dealer purchases require the Corporation to execute repurchase agreements in which the Corporation agrees, that in the event a dealer defaults on its repayment of the financing, the Corporation will repurchase its products from the financial institution in accordance with a declining repurchase price schedule agreed to by the financial institution and the Corporation. Any loss under these agreements is the difference between the repurchase cost and the resale value of the units repurchased. Further, the risk of loss is spread over numerous dealers.

The Corporation had no losses related to repurchases in fiscal years 2013 and 2012. Additional information regarding these repurchase agreements is included in Note 11, Commitments and Contingencies, in the Notes to Consolidated Financial Statements included in this document under Item 8.

Raw Materials and Supplies

The Corporation is basically an assembler and installer of components purchased from outside sources. The major components used by the Corporation are electrical components, lumber, plywood, shingles, vinyl and wood siding, steel, aluminum, insulation, home appliances, furnaces, plumbing fixtures, hardware, floor coverings and furniture. The suppliers are many and range in size from large national companies to very small local companies. At the present time the Corporation is obtaining sufficient materials to fulfill its needs.

Patents, Trademarks, Licenses, Franchises and Concessions

The Corporation does not rely upon any terminable or nonrenewable rights such as patents, licenses or franchises under the trademarks or patents of others, in the conduct of either segment of its business.

Seasonal Fluctuations

While the Corporation maintains production of homes and recreational vehicles throughout the year, seasonal fluctuations in sales do occur. Sales and production of homes are affected by winter weather conditions at the Corporation's northern plants. Recreational vehicle sales are generally higher in the spring and summer months than in the fall and winter months.

Inventory

The Corporation does not maintain significant inventories of either raw materials or finished goods. In addition, there are no inventories sold on consignment.

Table of Contents**Item 1. Business (Continued).****Dependence Upon Individual Customers**

The Corporation does not rely upon any single dealer for a significant percentage of its business in any industry segment.

Backlog

The Corporation does not consider the existence and extent of backlog to be significant in its business. The Corporation's production is based on a relatively short manufacturing cycle and dealers' orders, which continuously fluctuate. As such, the existence of backlog is insignificant at any given date and does not typically provide a reliable indication of the status of the Corporation's business.

Government Contracts

The Corporation has had no government contracts during the past two years.

Competitive Conditions

The industries in which the Corporation operates are highly competitive, with particular emphasis on price and features offered. The Corporation's competitors are numerous, ranging from multi-billion dollar corporations to relatively small and specialized manufacturers. In addition, the housing segment also competes with companies that provide other forms of housing, such as new and existing site-built homes, apartments, condominiums and townhouses.

The following tables show the Corporation's competitive position on a calendar and fiscal year basis in the product lines it sells.

	Units Shipped Calendar Year 2012			Units Shipped Calendar Year 2011		
	Industry	Skyline Market	Share	Industry	Skyline Market	Share
Manufactured housing	55,000	1,848	3.4%	52,000	1,880	3.6%
Domestic modular housing	13,000	301	2.3%	12,000	246	2.1%
Travel trailer	177,000	4,447	2.5%	153,000	4,714	3.1%
Fifth wheels	66,000	214	0.3%	60,000	209	0.4%

The competitive position for park models and Canadian modular housing is not listed because industry data is not available.

	Units Shipped Fiscal Year 2013			Units Shipped Fiscal Year 2012		
	Industry	Skyline Market	Share	Industry	Skyline Market	Share
Manufactured housing	56,000	1,851	3.3%	56,000	1,948	3.5%
Travel trailer	188,000	4,003	2.1%	161,000	4,610	2.9%
Fifth wheels	68,000	165	0.2%	62,000	232	0.4%

The competitive position for modular housing is not listed because industry data is not available.

Both the housing and recreational vehicle segments of the Corporation's business are dependent upon the availability of wholesale and retail financing. Consequently, increases in interest rates and the availability of credit through governmental action or otherwise, have adversely affected the Corporation's business in the past and may do so in the future.

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Item 1. Business (Continued).

Regulation

The manufacture, distribution and sale of manufactured housing, modular housing and recreational vehicles are subject to government regulations in both the United States and Canada, at federal, state or provincial and local levels.

Environmental Quality

The Corporation believes that compliance with federal, state and local requirements with respect to environmental quality will not require any material capital expenditures for plant or equipment modifications which would adversely affect earnings.

Other Regulations

The U.S. Department of Housing and Urban Development (HUD) has set national manufactured home construction and safety standards and implemented recall and other regulations since 1976. The National Manufactured Housing Construction and Safety Standards Act of 1974, as amended, under which such standards and regulations are promulgated, prohibits states from establishing or continuing in effect any manufactured home standard that is not identical to the federal standards as to any covered aspect of performance. Implementation of these standards and regulations involves inspection agency approval of manufactured home designs, plant and home inspection by states or other HUD-approved third parties, manufacturer certification that the standards are met, and possible recalls if they are not or if homes contain safety hazards.

HUD has promulgated rules requiring producers of manufactured homes to utilize wood products certified by their suppliers to meet HUD's established limits on formaldehyde emissions, and to place in each home written notice to prospective purchasers of possible adverse reaction from airborne formaldehyde in the homes. These rules are designated as preemptive of state regulation. Some components of manufactured and modular housing may also be subject to Consumer Product Safety Commission standards and recall requirements.

Regarding recreational vehicles, the Corporation has voluntarily subjected itself to third party inspection of all of its recreational vehicle products nationwide in order to further assure the Corporation, its dealers, and customers of compliance with established standards.

Manufactured housing, modular housing and recreational vehicles may be subject to the Magnuson-Moss Warranty Federal Trade Commission Improvement Act, which regulates warranties on consumer products.

The Corporation's travel trailers continue to be subject to safety standards and recall and other regulations promulgated by the U.S. Department of Transportation under the National Traffic and Motor Vehicle Safety Act of 1966 and the Transportation Recall Enhancement, Accountability and Documentation (TREAD) Act, as well as state laws and regulations.

The Corporation's operations are subject to the Federal Occupational Safety and Health Act, and are routinely inspected thereunder.

The transportation and placement (in the case of manufactured and modular housing) of the Corporation's products are subject to state highway use regulations and local ordinances which control the size of units that may be transported, the roads to be used, speed limits, hours of travel, and allowable locations for manufactured homes and communities.

The Corporation is also subject to many state manufacturer licensing and bonding requirements, and to dealer day in court requirements in some states.

The Corporation believes that it is currently in compliance with the above regulations.

Number of Employees

The Corporation employs approximately 1,100 people at the present time.

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Item 1. Business (Continued).

Executive Officers of the Corporation

Information regarding the Corporation's executive officers is located in this document under Part III, Item 10.

Available Information

The Corporation makes available, free of charge, through the Investors section of its internet website its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Proxy Statements and all amendments to those reports as soon as practicable after such material is electronically filed or furnished to the United States Securities and Exchange Commission (SEC). The Corporation's internet site is <http://www.skylinecorp.com>. A copy of the Corporation's annual report on Form 10-K will be provided without charge upon written request to Skyline Corporation, Investor Relations Department, Post Office Box 743, Elkhart, Indiana 46515.

The public may read and copy any materials the Corporation has filed with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may also obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet website (<http://www.sec.gov>) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Item 1A. Risk Factors.

Investors or potential investors should carefully consider the risks described below. Additional risks of which the Corporation is presently unaware or that the Corporation considers immaterial may also impair business operations and hinder financial performance.

Retail Financing Availability

Customers who purchase the Corporation's products generally obtain retail financing from third party lenders. The availability, terms and cost of retail financing depend on the lending practices of financial institutions, governmental policies and economic and other conditions, all of which are beyond the Corporation's control. A customer seeking to purchase a manufactured home without land will generally pay a higher interest rate and have a shorter loan maturity versus a customer financing the purchase of land and a home. This difference is due to most states classifying home-only manufactured housing loans as personal property rather than real property for purposes of taxation and lien perfection.

In recent years, many lenders of home-only financing have tightened credit underwriting standards, with some deciding to exit the industry. These actions resulted in decreased availability of retail financing, causing a negative effect on sales and operating results. If retail financing were to be further curtailed, net sales, operating results and cash flows could be adversely affected.

Wholesale Financing Availability

Independent dealers of the Corporation's products generally finance their inventory purchases with wholesale floor plan financing provided by lending institutions. A dealer's ability to obtain financing is significantly affected by the number of lending institutions offering floor planning, and by an institution's lending limits. In recent years, the industries in which the Corporation operates experienced a reduction in both the number of lenders offering floor planning and the amount of money available for financing. These events could have a negative impact on a dealer's ability to purchase manufactured housing, modular housing and recreational vehicle products, resulting in lower net sales, operating results and cash flows.

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Item 1A. Risk Factors (Continued).

Dependence on Independent Dealers

The Corporation sells its manufactured homes, modular homes and recreational vehicles to independent dealers. These dealers are not obligated to exclusively sell the Corporation's products, and may choose to sell competitor's products. In addition, a dealer may become financially insolvent and be forced to close its business. Both scenarios could have an adverse effect on net sales, operating results and cash flows.

Dealer Inventories

As wholesale shipments of manufactured homes, modular homes and recreational vehicles exceed retail sales, dealer inventories increase to a level where dealers decrease orders from manufacturers. As manufacturers respond to reduced demand, many either offer discounts to maintain production volumes or curtail production levels. Both outcomes could have a negative impact on net sales, operating results and cash flows.

Contingent Repurchase Agreements

As referenced in Note 11 to the Notes to the Consolidated Financial Statements in Item 8, the Corporation is contingently liable under repurchase agreements with certain financial institutions providing inventory financing for retailers of its products. The Corporation could be required to fulfill some or all of the repurchase agreements, resulting in increased expense and reduced cash flows.

Cost and Availability of Raw Materials

Prices and availability of raw materials used to manufacture the Corporation's products can change significantly due to fluctuations in supply and demand. In addition, the cost of raw materials is also influenced by transportation costs. The Corporation has historically been able to have an adequate supply of raw materials by maintaining good relations with its vendors. Increased prices have historically been passed on to dealers by raising the price of manufactured housing, modular housing and recreational vehicles. There is no certainty that the Corporation will be able to pass on future price increases and maintain an adequate supply of raw materials. The inability to raise the price of its products and to maintain a proper supply of materials could have a negative impact on net sales, operating results and cash flows.

Competition

As noted in Item 1, the manufactured housing, modular housing and recreational vehicle industries are highly competitive with particular emphasis on price and features offered. Some of the Corporation's competitors are vertically integrated by owning retail, consumer finance and insurance operations. This integration may provide competitors with an advantage. In addition, the Corporation's housing products compete with other forms of housing, such as new and existing site-built homes, apartments, condominiums and townhouses. The inability to effectively compete in this environment could result in lower net sales, operating results and cash flows.

Cyclical and Seasonal Nature of Business

The industries in which the Corporation operates are highly cyclical, and are impacted by but not limited to the following conditions:

Availability of wholesale and retail financing

Consumer confidence

Interest rates

Demographic and employment trends

Availability of used or repossessed homes or recreational vehicles

Impact of inflation

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Item 1A. Risk Factors (Continued). Cyclical and Seasonal Nature of Business (Continued)

Sales of manufactured housing, modular housing and recreational vehicle industries are also seasonal in nature with sales being lowest in the winter months. Seasonal changes, in addition to weakness in demand in one or both of the Corporation's market segments, could materially impact the Corporation's net sales, operating results and cash flows.

Changing Consumer Preferences

Changes in consumer preferences for manufactured housing, modular housing and recreational vehicles occur over time, and consequently the Corporation responds to changing demand by evaluating the market acceptability of its products. Delays in responding to changing consumer preferences could have an adverse effect on net sales, operating results and cash flows.

Increased Fuel Prices

The Corporation's recreational vehicle products depend on the use of vehicles that operate on gasoline or diesel fuel. In the Corporation's history there have been periods where the price of gasoline and diesel fuel dramatically increased. These increases resulted in greater cost associated with recreational vehicle travel. This trend could result in decreased net sales, operating results and cash flows.

Governmental Regulations

As noted in Item 1, the Corporation is subject to various governmental regulations. Implementation of new regulations or amendments to existing regulations could significantly increase the cost of the Corporation's products. In addition, failure to comply with present or future regulations could result in fines or potential civil or criminal liability. Both scenarios could negatively impact net sales, operating results and cash flows.

Dependence on Executive Officers and Other Key Personnel

The Corporation depends on the efforts of its executive officers and certain key employees. The loss of the service of one or more of these individuals could have an adverse effect on net sales, operating results and cash flows of the Corporation.

Incurrence of Net Losses

Due to negative economic conditions that impacted the manufactured housing, modular housing and recreational vehicle industries, the Corporation incurred net losses from fiscal year 2008 to 2013. While the Corporation's management is pursuing strategies as referenced in Item 7 to increase sales and decrease costs, no one can predict with certainty what the future may hold. Continued losses could negatively affect the Corporation's liquidity.

Item 1B. Unresolved Staff Comments. None

Table of Contents**Item 2. Properties.**

The Corporation's 11 operating manufacturing facilities, 4 idle facilities and 3 corporate facilities, all of which are owned, are as follows:

Location	Products	Approximate Square Footage
California, San Jacinto	Manufactured Housing	84,000
California, Woodland	Manufactured Housing	81,000
Florida, Ocala	Manufactured Housing	139,000
Florida, Ocala	Idle	127,000
Indiana, Bristol	Recreational Vehicles	115,000
Indiana, Elkhart	Recreational Vehicles	75,000
Indiana, Elkhart	Idle	55,000
Indiana, Elkhart	Corporate	37,000
Indiana, Elkhart	Corporate	18,000
Indiana, Elkhart	Corporate	4,000
Kansas, Arkansas City	Manufactured Housing	83,000
Kansas, Halstead	Idle	84,000
Ohio, Sugarcreek	Manufactured Housing	149,000
Oregon, McMinnville	Manufactured Housing	246,000
Pennsylvania, Leola	Manufactured Housing	210,000
Texas, Mansfield	Recreational Vehicles	79,000
Vermont, Fair Haven	Idle	91,000
Wisconsin, Lancaster	Manufactured Housing	130,000

In addition, the Corporation owns undeveloped land in Elkhart, Indiana and McMinnville, Oregon. In the second quarter of fiscal 2013, two idle recreational vehicle facilities located in Hemet, California were sold for a gain of \$1,411,000. In the fourth quarter of fiscal 2013, an idle manufactured housing facility located in Mocksville, North Carolina was sold for a gain of \$230,000. In the second quarter of fiscal 2012, one idle housing facility located in Ocala, Florida and one located in Ephrata, Pennsylvania were sold for gains of \$1,114,000 and \$1,386,000, respectively.

It is extremely difficult to determine the unit productive capacity of the Corporation because of the ever-changing product mix. The Corporation believes that its plant facilities, machinery and equipment are well maintained and are in good operating condition.

Item 3. Legal Proceedings.

The Corporation is a party to various pending legal proceedings in the normal course of business. Management believes that any losses resulting from such proceedings would not have a material adverse effect on the Corporation's results of operations or financial position.

Item 4. Mine Safety Disclosures.

Not applicable.

Table of Contents**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Skyline Corporation (SKY) is traded on the New York Stock Exchange. At May 31, 2013, there were 746 shareholders of record of Skyline Corporation common stock. A quarterly summary of the market price and dividends declared per share are listed for the fiscal years ended May 31, 2013 and 2012. In the third quarter of fiscal 2012, the Board of Directors approved a resolution to suspend dividend payments on the outstanding shares of the Corporation's common stock until further notice. The suspension was for cash preservation purposes. The Board will evaluate financial performance and liquidity needs in determining the timing and amount of future dividend payments.

	Common Stock Price Range				Dividends Declared Per Share	
	2013		2012		2013	2012
	High	Low	High	Low		
First quarter	\$ 5.50	\$ 4.14	\$ 18.25	\$ 8.79	\$	\$.09
Second quarter	\$ 5.81	\$ 3.86	\$ 11.00	\$ 4.96	\$	\$.09
Third quarter	\$ 5.00	\$ 3.60	\$ 8.34	\$ 4.02	\$	\$
Fourth quarter	\$ 6.16	\$ 4.07	\$ 8.16	\$ 4.50	\$	\$

The name, address and phone number of the Corporation's stock transfer agent and registrar is:

Computershare Trust Company, N.A.

P. O. Box 43078

Providence, RI 02940

(312) 588-4237

Item 6. Selected Financial Data.

Not applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**Overview**

The Corporation designs, produces and markets manufactured housing, modular housing and recreational vehicles (travel trailers, fifth wheels and park models) to independent dealers and manufactured housing communities located throughout the United States and Canada. To better serve the needs of its dealers and communities, the Corporation has eleven manufacturing facilities in nine states. Manufactured housing, modular housing and recreational vehicles are sold to dealers and communities either through floor plan financing with various financial institutions or on a cash basis. While the Corporation maintains production of manufactured housing, modular homes and recreational vehicles throughout the year, seasonal fluctuations in sales do occur. Sales and production of manufactured housing and modular housing are affected by winter weather conditions at the Corporation's northern plants. Recreational vehicle sales are generally higher in the spring and summer months than in the fall and winter months.

As referenced in Item 1, manufactured and modular housing are marketed under a number of trademarks, and are available in a variety of dimensions. Manufactured housing products are built according to standards established by the U.S. Department of Housing and Urban Development. Modular homes are built according to state, provincial or local building codes. Recreational vehicles include travel trailers, fifth wheels and park models. Travel trailers and fifth wheels are marketed under the following trademarks: Aljo ; AlumaSky ; Koala ; Layton ; Mountain View ; Nomad ; Skycat ; Texan ; Wagoneer ; Walkabout ; and Weekender . Park models are marketed under the following trade

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Cabin Series ; Cedar Cove ; Kensington ; Shore Park Homes ; Stone Harbor ; and Vacation Villa . The Corporation 's recreational vehicles are intended to provide temporary living accommodations for individuals seeking leisure travel and outdoor recreation.

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Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued).*

Manufactured Housing, Modular Housing and Recreational Vehicle Industry Conditions

Sales of manufactured housing, modular housing and recreational vehicles are affected by the strength of the U.S. economy, interest rate and employment levels, consumer confidence and the availability of wholesale and retail financing. The manufactured housing industry has until recently been affected by declining or stagnating unit shipments. This decline or stagnation, caused primarily by adverse economic conditions, tightening retail and wholesale credit markets and a depressed site-built housing market, is resulting in historically low industry shipments. Total shipments for calendar 2012 were approximately 55,000 units, a 6 percent increase from the previous year's total of approximately 52,000 units. In addition, total shipments from January to May 2013 were approximately 24,000 units, an approximately 5 percent increase from the same period a year ago.

Tight credit markets for retail and wholesale financing have become a significant challenge for the manufactured housing industry. According to the Manufactured Housing Institute, a lack of retail financing options and restrictive credit standards has negatively affected manufactured home buyers. In addition, a significant decline has occurred in wholesale financing, especially as national floor plan lenders have decreased lending to industry dealers.

The domestic modular housing industry has challenges similar to the manufactured housing industry, such as restrictive retail and wholesale financing, and a depressed site-built housing market. From calendar 2006 to 2012, total shipments decreased from approximately 39,000 to 13,000 units, a decline of 67 percent. Information related to the Canadian modular housing industry is not available.

Sales of recreational vehicles are influenced by changes in consumer confidence, employment levels, the availability of retail and wholesale financing and gasoline prices. Industry unit sales of travel trailers and fifth wheels have varied in recent years. From calendar 2007 to the first half of 2009 unit sales decreased as a result of recessionary conditions, decreased household wealth, tightening credit markets for retail and wholesale financing, and excess inventory of new recreational vehicles. Unit sales, however, started increasing in the last half of calendar 2009 and continue to date. The Recreational Vehicle Industry Association (RVIA) notes that continued growth in recreational vehicle shipments is due to a combination of easing credit terms and availability of loans, gains in household wealth and employment. These positive factors, however, could be negatively affected by adverse changes in federal policies and regulations in addition to adverse global economic conditions.

Fiscal 2013 Results

The Corporation experienced the following results during fiscal 2013:

Total net sales were \$177,574,000, an approximate 3 percent decrease from the \$182,846,000 reported in the same period a year ago.

Housing net sales were \$111,104,000, an approximate 2 percent increase from the \$109,157,000 realized in fiscal 2012.

Recreational vehicle net sales were \$66,470,000 in fiscal 2013, an approximate 10 percent decrease from \$73,689,000 in fiscal 2012.

Net loss for the fiscal 2013 was \$10,513,000 as compared to \$19,365,000 for fiscal 2012. On a per share basis, net loss was \$1.25 as compared to \$2.31 for the comparable period a year ago.

Two idle recreational vehicle facilities located in Hemet, California were sold for a gain of \$1,411,000. In addition, an idle manufactured housing facility located in Mocksville, North Carolina was sold for a gain of \$230,000.

The Corporation's housing segment experienced increased net sales in fiscal 2013 as compared to fiscal 2012, and management cannot determine with certainty if this trend will continue. This uncertainty is based on continuing negative economic conditions previously referenced.

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**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued).
Fiscal 2013 Results (Continued)**

The recreational vehicle segment experienced decreased net sales in fiscal 2013. Regarding the business environment for fiscal 2014, the RVIA forecasts calendar 2013 travel trailer and fifth wheel shipments of approximately 262,000 units; an 8 percent increase from calendar 2012's total of approximately 243,000 units. In addition, the RVIA forecasts 2014 travel trailer and fifth wheel shipments of approximately 271,000 units; a 3 percent increase from 2013's estimated total. Despite this favorable trend, business conditions for fiscal 2014 could be negatively impacted by adverse factors previously referenced by the RVIA.

Management's Plan

Due to recent losses, the Corporation is actively pursuing strategies to increase sales and decrease costs. These strategies include but are not limited to:

Increasing efforts to increase sales of modular homes and park models in both the United States and Canada by cultivating relationships with modular housing developers and campground owners that are outside the Corporation's historical distribution channels

Improving the process of developing homes and recreational vehicles to better meet ever changing preferences of consumers

Maintaining the number of display models at housing facilities in order to provide dealers, communities and consumers with examples of newly designed product

Utilizing social media to improve product exposure to customers and to better connect dealers to potential customers

Selling non-strategic assets to generate cash and eliminate carrying costs

Working with current and potential vendors to decrease costs

Analyzing staffing needs and making reductions when considered appropriate by management

By implementing these strategies, and having a significant position of its working capital in cash and U.S. Treasury Bills, the Corporation's management believes the Corporation will have sufficient liquidity to meet its obligations through the next operating cycle.

Table of Contents**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued).****Results of Operations Fiscal 2013 Compared to Fiscal 2012***Net Sales and Unit Shipments*

	2013	Percent	2012	Percent	Increase (Decrease)
	(Dollars in thousands)				
Net sales					
Domestic Manufactured					
Housing	\$ 87,380	49	\$ 87,487	48	(107)
Modular Housing					
Domestic	18,562	11	15,852	9	2,710
Canadian	5,162	3	5,818	3	(656)
	23,724	14	21,670	12	2,054
Total Housing	111,104	63	109,157	60	1,947
Recreational Vehicles					
Domestic	53,267	30	55,003	30	(1,736)
Canadian	13,203	7	18,686	10	(5,483)
Total Recreational Vehicles	66,470	37	73,689	40	(7,219)
Total Net Sales	\$ 177,574	100	\$ 182,846	100	\$ (5,272)
Unit shipments					
Domestic Manufactured					
Housing	1,851	28	1,948	27	(97)
Modular Housing					
Domestic	285	4	274	4	11
Canadian	85	2	106	1	(21)
	370	6	380	5	(10)
Total Housing	2,221	34	2,328	32	(107)
Recreational Vehicles					
Domestic	3,488	53	3,825	52	(337)
Canadian	848	13	1,179	16	(331)
Total Recreational Vehicles	4,336	66	5,004	68	(668)
Total Unit Shipments	6,557	100	7,332	100	(775)

Housing net sales increased approximately 2 percent. The increase was the outcome of the following factors:

Domestic manufactured housing net sales remaining relatively unchanged

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Domestic modular housing net sales increasing approximately 17 percent

Canadian modular housing net sales decreasing approximately 11 percent

Housing unit shipments decreased approximately 5 percent. The decrease was the outcome of the following factors:

Domestic manufactured housing shipments decreasing approximately 5 percent

Domestic modular shipments increasing approximately 4 percent

Table of Contents**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued).
Results of Operations Fiscal 2013 Compared to Fiscal 2012 (Continued)*****Net Sales and Unit Shipments (Continued)***

Canadian modular shipments decreasing approximately 20 percent

Total domestic manufactured housing unit shipments decreased approximately 5 percent. Industry unit shipments for these products remained relatively unchanged from fiscal 2012 to fiscal 2013. Current industry unit shipment data for modular housing is not available. Adverse conditions that caused the Corporation's unit shipments to lag the industry include:

Competitors providing wholesale financing to dealers, thereby creating greater sales opportunities

Unit shipment growth occurring in states where the Corporation has no or minimal sales activity due primarily to a lack of either manufacturing facilities or an established independent dealer network

Compared to prior year, the average net sales price for domestic manufactured housing increased approximately 5 percent primarily due to sales price adjustments resulting from higher material costs. The average net sales price for domestic modular and Canadian modular housing products increased approximately 13 percent and 11 percent, respectively. These increases are the result of homes sold with larger square footage and greater amenities; in addition to sales price adjustments resulting from higher material costs.

Recreational vehicles net sales revenue decreased approximately 10 percent. The decrease was the outcome of the following factors:

Domestic recreational vehicle net sales decreasing approximately 3 percent

Canadian recreational vehicle net sales decreasing approximately 29 percent

Recreational vehicle unit shipments decreased approximately 13 percent. The decrease was the outcome of the following factors:

Domestic recreational vehicle shipments decreasing approximately 9 percent

Canadian recreational vehicle shipments decreasing approximately 28 percent

Unit shipments for travel trailers and fifth wheels decreased approximately 14 percent. Industry shipments for these products in fiscal 2013 as compared to fiscal 2012 increased approximately 15 percent. The Corporation's unit shipments lagged the industry due to decreased demand from Canadian dealers. In addition, some competitors maintained larger quantities of finished goods inventory; resulting in the ability to meet dealer demand immediately. Current industry unit shipment data for park models is not available.

Compared to prior year, the average net sales price per unit for recreational vehicles sold domestically increased approximately 4 percent; primarily due to models sold with larger square footage and greater amenities.

Cost of Sales

2013

2012

Decrease

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		Percent of Net Sales*	(Dollars in Thousands)	Percent of Net Sales*	
Housing	\$ 104,131	94	\$ 107,272	98	\$ 3,141
Recreational vehicles	61,980	93	70,690	96	8,710
Consolidated	\$ 166,111	94	\$ 177,962	97	\$ 11,851

* The percentages for housing and recreational vehicles are based on segment net sales. The percentage for consolidated cost of sales is based on total net sales.

Table of Contents**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued).
Results of Operations Fiscal 2013 Compared to Fiscal 2012 (Continued)****Cost of Sales (Continued)**

Housing cost of sales, in dollars and as a percentage of net sales, decreased due to lower manufacturing expenses and improved margins on products sold. Recreational vehicle cost of sales declined due to decreased unit shipments and lower manufacturing expenses. As a percentage of net sales, cost of sales decreased as a result of lower manufacturing expenses and improved margins on products sold.

Selling and Administrative Expenses

	2013	Percent of Net Sales	2012	Percent of Net Sales	Decrease
			(Dollars in thousands)		
Selling and administrative expenses	\$ 23,681	13	\$ 27,450	15	\$ 3,769

Selling and administrative expenses, in dollars and as a percent of net sales, decreased primarily as a result of a decline in salaries and wages due to staff reductions, performance based compensation, dealer and trade show expenses, and the closure of the Corporation's aviation department.

Gain on Sale of Idle Property, Plant and Equipment

In the second quarter of fiscal 2013, the Corporation sold two idle recreational vehicle facilities in Hemet, California for a gain of \$1,411,000. In the fourth quarter of fiscal 2013, an idle manufactured housing facility located in Mocksville, North Carolina was sold for a gain of \$230,000.

In the second quarter of fiscal 2012, the Corporation sold idle housing facilities located in Ocala, Florida and Ephrata, Pennsylvania for gains of \$1,114,000 and \$1,386,000, respectively. In addition, the Corporation sold its aircraft in the fourth quarter of fiscal 2012 for a gain of \$684,000.

Loss Before Income Taxes

	2013	Percent of Net Sales*	2012	Percent of Net Sales*
			(Dollars in Thousands)	
Housing	\$ (6,867)	(6)	\$ (13,440)	(12)
Recreational vehicles	(3,444)	(5)	(6,808)	(9)
General corporate expenses	(1,907)	(1)	(2,318)	(1)
Gain on sale of idle property, plant and equipment	1,641	1	3,184	2
Operating loss	(10,577)	(6)	(19,382)	(11)
Interest income	64		17	
Loss before income taxes	\$ (10,513)	(6)	\$ (19,365)	(11)

* The percentages for housing and recreational vehicles are based on segment net sales. The percentage for general corporate expenses, gain on sale of property, plant and equipment, interest income, total operating loss and loss before income taxes are based on total net sales. The operating loss for the housing segment decreased due to increased net sales, improved margins on products sold, and decreased manufacturing, selling and administrative expenses.

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Recreational vehicle operating loss decreased primarily due to improved margins on products sold, and decreased manufacturing, selling and administrative expenses.

Table of Contents**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued).
Results of Operations Fiscal 2013 Compared to Fiscal 2012 (Continued)****Loss Before Income Taxes (Continued)**

General corporate expenses decreased primarily as a result of the closure of the Corporation's aviation department.

Interest income for fiscal 2013 consisted of \$55,000 from the Corporation's note receivable and \$9,000 from investment in U.S. Treasury Bills. Interest income for fiscal 2012 consisted of \$17,000 from investment in U.S. Treasury Bills.

Liquidity and Capital Resources

	May 31, 2013	May 31, 2012	Increase (Decrease)
	(Dollars in thousands)		
Cash, Restricted Cash and U.S. Treasury Bills	\$ 16,438	\$ 29,009	\$ (12,571)
Current assets, exclusive of cash, restricted cash and U.S. Treasury Bills	\$ 25,199	\$ 22,461	\$ 2,738
Current liabilities	\$ 14,207	\$ 14,681	\$ (474)
Working capital	\$ 27,430	\$ 36,789	\$ (9,359)

The Corporation's policy is to invest its excess cash, which exceeds its operating needs, in U.S. Government Securities. Cash and U.S. Treasury Bills decreased primarily due to a net loss of \$10,513,000. Current assets, exclusive of cash and U.S. Treasury Bills, increased mainly due to a \$2,273,000 increase in accounts receivable and a \$373,000 increase in inventories. Accounts receivable increased mainly due to money owed from Stewart Homes, Inc. for the purchase of homes as referenced in Note 2, Restricted Cash, in the Notes to Consolidated Financial Statements included in this document under Item 8. Inventories increased primarily as a result of greater production occurring at May 31, 2013 as compared to May 31, 2012.

Current liabilities decreased primarily as a result of a \$366,000 decrease in accrued salaries and wages. This decrease is due to the timing of payments to employees at May 31, 2013 as compared to May 31, 2012.

Capital expenditures totaled \$75,000 for fiscal 2013 as compared to \$614,000 for fiscal 2012. Capital expenditures were made primarily to replace or refurbish machinery and equipment.

The Corporation's current cash and other short-term investments are expected to be adequate to fund operating cash needs in addition to any capital expenditures for the upcoming fiscal year. Although the Corporation has experienced decreased liquidity, its financing needs have been met with a combination of cash on hand and funds generated through the sale of assets. In addition, various strategies are being pursued to improve financial performance. These strategies are referenced in the Fiscal 2013 section of Item 7.

Critical Accounting Policies

The preparation of financial statements in conformity with generally accepted accounting principles requires the Corporation to make certain estimates that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. Estimates are periodically evaluated using historical experience and various other factors believed to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions. The following accounting policies are considered to require a significant estimate:

Deferred Tax Assets

Net deferred tax assets and liabilities are computed based on the difference between the financial statement and income tax bases of assets and liabilities using the enacted tax rates.

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Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations* (Continued). Critical Accounting Policies (Continued)

Deferred Tax Assets (Continued)

The Corporation has a full valuation allowance against its deferred tax assets. In addition, net deferred tax assets consist of federal net operating loss and tax credit carryforwards, state net operating loss carryforwards and temporary differences between financial and tax reporting. Additional information regarding the increase in the valuation allowance is referenced in Note 10 of the Notes to Consolidated Financial Statements.

Revenue Recognition

The Corporation's accounting for revenue recognition is referenced in Note 1 of the Notes to Consolidated Financial Statements.

Product Warranties

As referenced in Note 1 of the Notes to Consolidated Financial Statements, homes are sold with a fifteen-month warranty and recreational vehicles are sold with a one-year warranty. Estimated warranty costs are accrued at the time of sale based upon sales, historical claims experience and management's judgment regarding anticipated rates of warranty claims. Significant changes in these factors could have a material impact on future results of operations.

Newly Issued Accounting Standards

The effect of newly issued accounting standards on the Corporation is addressed in Note 1 of the Notes to Consolidated Financial Statements.

Impact of Inflation

The consolidated financial statements included in this report reflect transactions in the dollar values in which they were incurred and, therefore, do not attempt to measure the impact of inflation. On a long-term basis, the Corporation has adjusted selling prices in reaction to changing costs due to inflation.

Forward Looking Information

Certain statements in this report are considered forward looking as indicated by the Private Securities Litigation Reform Act of 1995. These statements involve uncertainties that may cause actual results to materially differ from expectations as of the report date. These uncertainties include but are not limited to:

Consumer confidence and economic uncertainty

Availability of wholesale and retail financing

The health of the U.S. housing market as a whole

Federal, state and local regulations pertaining to the manufactured housing and industry

Cyclical nature of the manufactured housing and recreational vehicle industries

General or seasonal weather conditions affecting sales

Potential impact of natural disasters on sales and raw material costs

Potential periodic inventory adjustments by independent retailers

Interest rate levels

Impact of inflation

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**Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations* (Continued).
Forward Looking Information (Continued)**

Impact of rising fuel costs

Cost of labor and raw materials

Competitive pressures on pricing and promotional costs

Catastrophic events impacting insurance costs

The availability of insurance coverage for various risks to the Corporation

Market demographics

Management's ability to attract and retain executive officers and key personnel

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk.*

Not applicable.

Item 8. *Financial Statements and Supplementary Data.*

Index to Consolidated Financial Statements

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All other supplementary data is omitted because it is not applicable or the required information is shown in the financial statements or notes thereto.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Skyline Corporation:

We have audited the accompanying consolidated balance sheets of Skyline Corporation and subsidiary companies (the Corporation) as of May 31, 2013 and 2012, and the related consolidated statements of operations and retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Corporation is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of May 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Crowe Horwath LLP

Fort Wayne, Indiana

July 26, 2013

Table of Contents**Skyline Corporation and Subsidiary Companies****Consolidated Balance Sheets****May 31, 2013 and 2012****(Dollars in thousands)**

	2013	2012
ASSETS		
Current Assets:		
Cash	\$ 11,838	\$ 12,011
Restricted cash	600	
U.S. Treasury Bills, at cost plus accrued interest	4,000	16,998
Accounts receivable	13,472	11,199
Note receivable, current	47	
Inventories	8,732	8,359
Workers' compensation security deposit	2,597	2,402
Other current assets	351	501
Total Current Assets	41,637	51,470
Note Receivable, non-current	1,631	
Property, Plant and Equipment, at Cost:		
Land	3,918	3,918
Buildings and improvements	40,960	40,891
Machinery and equipment	17,918	18,122
	62,796	62,931
Less accumulated depreciation	47,355	45,856
	15,441	17,075
Idle property, net of accumulated depreciation	2,901	4,121
Net Property, Plant and Equipment	18,342	21,196
Other Assets	6,317	6,190
Total Assets	\$ 67,927	\$ 78,856

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents**Skyline Corporation and Subsidiary Companies****Consolidated Balance Sheets (Continued)****May 31, 2013 and 2012****(Dollars in thousands, except share and per share amounts)**

	2013	2012
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable, trade	\$ 3,675	\$ 3,296
Accrued salaries and wages	2,624	2,990
Accrued marketing programs	1,965	2,215
Accrued warranty and related expenses	3,682	3,870
Other accrued liabilities	2,261	2,310
Total Current Liabilities	14,207	14,681
Other Deferred Liabilities	8,069	8,011
Commitments and Contingencies See Note 11		
Shareholders Equity:		
Common stock, \$.0277 par value, 15,000,000 shares authorized; issued 11,217,144 shares	312	312
Additional paid-in capital	4,928	4,928
Retained earnings	106,155	116,668
Treasury stock, at cost, 2,825,900 shares	(65,744)	(65,744)
Total Shareholders Equity	45,651	56,164
Total Liabilities and Shareholders Equity	\$ 67,927	\$ 78,856

The accompanying notes are an integral part of the consolidated financial statements.

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Skyline Corporation and Subsidiary Companies
Consolidated Statements of Operations and Retained Earnings
For the Years Ended May 31, 2013 and 2012
(Dollars in thousands, except share and per share amounts)

	2013	2012
OPERATIONS		
Net sales	\$ 177,574	\$ 182,846
Cost of sales	166,111	177,962
Gross profit	11,463	4,884
Selling and administrative expenses	23,681	27,450
Gain on sale of idle property, plant and equipment	1,641	3,184
Operating loss	(10,577)	(19,382)
Interest income	64	17
Loss before income taxes	(10,513)	(19,365)
Benefit from income taxes		
Net loss	\$ (10,513)	\$ (19,365)
Basic loss per share	\$ (1.25)	\$ (2.31)
Cash dividends per share	\$	\$.18
Weighted average number of common shares outstanding	8,391,244	8,391,244
RETAINED EARNINGS		
Balance at beginning of year	\$ 116,668	\$ 137,543
Net loss	(10,513)	(19,365)
Cash dividends paid		(1,510)
Balance at end of year	\$ 106,155	\$ 116,668

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents**Skyline Corporation and Subsidiary Companies****Consolidated Statements of Cash Flows****For the Years Ended May 31, 2013 and 2012****(Dollars in thousands)**

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (10,513)	\$ (19,365)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	2,002	2,359
Gain on sale of idle property, plant and equipment	(1,641)	(3,184)
Change in assets and liabilities:		
Restricted cash	(600)	
Accrued interest receivable	3	5
Accounts receivable	(2,273)	278
Inventories	(373)	361
Workers' compensation security deposit	(195)	615
Other current assets	150	(55)
Accounts payable, trade	379	(96)
Accrued liabilities	(853)	61
Other, net	(125)	424
Net cash used in operating activities	(14,039)	(18,597)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from principal payments of U.S. Treasury Bills	58,988	67,979
Purchase of U.S. Treasury Bills	(45,993)	(49,988)
Proceeds from sale of idle property, plant and equipment	819	5,054
Proceeds from note receivable	22	
Purchase of property, plant and equipment	(75)	(614)
Other, net	105	(40)
Net cash provided by investing activities	13,866	22,391
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid		(1,510)
Net cash used in financing activities		(1,510)
Net (decrease) increase in cash	(173)	2,284
Cash at beginning of year	12,011	9,727
Cash at end of year	\$ 11,838	\$ 12,011
NON-CASH TRANSACTIONS:		
Note receivable from sale of idle property, plant and equipment	\$ 1,700	\$

The accompanying notes are an integral part of the consolidated financial statements.

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Skyline Corporation and Subsidiary Companies

Notes to Consolidated Financial Statements

NOTE 1 Nature of Operations, Accounting Policies of Consolidated Financial Statements

Nature of operations Skyline Corporation designs, produces and markets manufactured housing, modular housing and recreational vehicles (travel trailers, fifth wheels and park models) to independent dealers and manufactured housing communities throughout the United States and Canada. Manufactured housing represents homes built according to a national code; modular housing represents homes built to a local code. These dealers and communities often utilize floor plan financing arrangements with lending institutions.

The following is a summary of the accounting policies that have a significant effect on the consolidated financial statements.

Basis of presentation The consolidated financial statements include the accounts of Skyline Corporation and its wholly-owned subsidiaries as referenced in Exhibit 21 (the Corporation). All intercompany transactions have been eliminated. Certain prior year amounts have been reclassified to conform to current year presentation.

Accounting Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Key estimates would include accruals for warranty, workers' compensation, marketing programs and health insurance as well as valuations for long-lived assets and deferred tax assets.

Revenue recognition Substantially all of the Corporation's products are made to order. Revenue is recognized upon completion of the following: an order for a unit is received from a dealer or community (customer); written or verbal approval for payment is received from a customer's financial institution or payment is received; a common carrier signs documentation accepting responsibility for the unit as agent for the customer; and the unit is removed from the Corporation's premises for delivery to a customer. Freight billed to customers is considered sales revenue, and the related freight costs are cost of sales. Volume based rebates paid to dealers are classified as a reduction of sales revenue. Sales of parts are classified as revenue.

Investments The Corporation invests in United States Government securities, which are typically held until maturity and are therefore classified as held-to-maturity and carried at amortized cost.

Accounts Receivable Trade receivables are based on the amounts billed to dealers and communities. The Corporation does not accrue interest on any of its trade receivables, nor does it have an allowance for credit losses due to favorable collections experience. If a loss occurs, the Corporation's policy is to recognize it in the period when collectability cannot be reasonably assured.

Inventories Inventories are stated at the lower of cost or market. Cost is determined under the first-in, first-out method. Physical inventory counts are taken at the end of each reporting quarter.

Workers' Compensation Security Deposit Deferred worker's compensation deposit represents funds placed with the Corporation's worker's compensation insurance carrier to offset future medical claims and benefits.

Note Receivable The Corporation's note receivable represents the amount owed for the sale of two idle recreational vehicle facilities in Hemet, California; less cash received on the date of closing and cash received from principal repayments through May 31, 2013. Interest is accrued on a monthly basis. No allowance for credit losses exists due to favorable collections experience. The Corporation's management evaluates the credit quality of the note on a monthly basis. The Corporation's policy is to recognize a loss in the period when collectability cannot be reasonably assured.

Property, Plant and Equipment Property, plant and equipment are stated at cost. Depreciation is computed over the estimated useful lives of the assets using the straight-line method for financial statement

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Skyline Corporation and Subsidiary Companies

Notes to Consolidated Financial Statements (Continued)

NOTE 1 Nature of Operations, Accounting Policies of Consolidated Financial Statements (Continued)

Property, Plant and Equipment (Continued)

reporting and accelerated methods for income tax reporting purposes. Estimated useful lives for significant classes of property, plant and equipment, including idle property, are as follows: Building and improvements 10 to 30 years; machinery and equipment 5 to 8 years.

At May 31, 2013, Idle property, net of accumulated depreciation consisted of manufacturing facilities in the following locations: Ocala, Florida; Elkhart, Indiana; Halstead, Kansas; and Fair Haven, Vermont. At May 31, 2012, Idle property, net of accumulated depreciation consisted of manufacturing facilities in the following locations: Hemet, California; Ocala, Florida; Elkhart, Indiana; Halstead, Kansas; Mocksville, North Carolina and Fair Haven, Vermont.

Long-lived assets are reviewed for impairment whenever events indicate that the carrying amount of an asset may not be recoverable from projected future cash flows. If the carrying value of a long-lived asset is impaired, an impairment charge is recorded for the amount by which the carrying value of the long-lived asset exceeds its fair value. The Company believes no impairment of long-lived assets exists at May 31, 2013.

Warranty The Corporation provides the retail purchaser of its homes with a full fifteen-month warranty against defects in design, materials and workmanship. Recreational vehicles are covered by a one-year warranty. The warranties are backed by service departments located at the Corporation's manufacturing facilities and an extensive field service system. Estimated warranty costs are accrued at the time of sale based upon current sales, historical experience and management's judgment regarding anticipated rates of warranty claims. The adequacy of the recorded warranty liability is periodically assessed and the amount is adjusted as necessary.

Income Taxes The Corporation recognizes deferred tax assets based on differences between the carrying values of assets for financial and tax reporting purposes. The realization of the deferred tax assets is dependent upon the generation of sufficient future taxable income. Generally accepted accounting principles require that an entity consider both negative and positive evidence in determining whether a valuation allowance is warranted. In comparing negative and positive evidence, continual losses in recent years is considered significant, negative, objective evidence that deferred tax assets may not be realized in the future, and generally is assigned more weight than subjective positive evidence of the realizability of deferred tax assets. As a result of its extensive evaluation of both positive and negative evidence, management maintains a full valuation allowance against its deferred tax assets. The Corporation reports a liability, if any, for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. The Corporation recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

Consolidated statements of cash flows For purposes of the consolidated statements of cash flows, investments in U. S. Treasury Bills and Notes are included as investing activities. The Corporation's cash flows from operating activities were not affected by income taxes in fiscal 2013 and 2012.

Recently issued accounting pronouncements There have been no recently issued accounting pronouncements that have had or will have a material effect on the Corporation's financial condition or results of operations.

Management's Plan Due to recent losses, the Corporation is pursuing strategies to increase sales and decrease costs. These strategies include but are not limited to:

Increasing efforts to increase sales of modular homes and park models in both the United States and Canada by cultivating relationships with modular housing developers and campground owners that are outside the Corporation's historical distribution channels

Improving the process of developing homes and recreational vehicles to better meet ever changing preferences of consumers

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Skyline Corporation and Subsidiary Companies

Notes to Consolidated Financial Statements (Continued)

NOTE 1 Nature of Operations, Accounting Policies of Consolidated Financial Statements (Continued)

Management's Plan (Continued)

Maintaining the number of display models at housing facilities in order to provide dealers, communities and consumers with examples of newly designed product

Utilizing social media to improve product exposure to customers and to better connect dealers to potential customers

Selling non-strategic assets to generate cash and eliminate carrying costs

Working with current and potential vendors to decrease costs

Analyzing staffing and making reductions when considered appropriate by management
By implementing these strategies, and having a significant position of its working capital in cash and U.S. Treasury Bills, the Corporation's management believes the Corporation will have sufficient liquidity to meet its obligations through the next operating cycle.

NOTE 2 Restricted Cash

During fiscal 2013, the Corporation entered into an agreement to build and sell 60 manufactured homes to Stewart Homes, Inc., one of its dealers. Stewart Homes Inc. also entered into an agreement to sell these homes to Oakridge Family Homes, L.P., a California limited partnership. As a function of Oakridge Family Homes, L.P. purchasing the 60 homes, the Corporation pledged a \$600,000 certificate of deposit as security for certain performances. The certificate of deposit will remain pledged until terms of the certificate of deposit proceeds and security agreement between the Corporation and Oakridge Family Homes, L.P. are completed, which is expected to occur by November 30, 2013. Based on the terms of the arrangement, the Corporation expects this cash will be available for unrestricted use within the next operating cycle and accordingly has classified this as a current asset.

NOTE 3 Investments

The following is a summary of investments:

	Gross Amortized Costs	Gross Unrealized Gain (Dollars in thousands)	Fair Value
May 31, 2013			

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U. S. Treasury Bills	\$ 4,000	\$	\$ 4,000
May 31, 2012			
U. S. Treasury Bills	\$ 16,998	\$ 5	\$ 17,003

The fair value is determined by a secondary market for U.S. Government Securities. At May 31, 2012, the U.S. Treasury Bills matured within four months. At May 31, 2013, the U.S. Treasury Bills matures within three months.

Table of Contents**Skyline Corporation and Subsidiary Companies****Notes to Consolidated Financial Statements (Continued)****NOTE 4 Inventories**

Total inventories consist of the following:

	May 31,	
	2013	2012
	(Dollars in thousands)	
Raw materials	\$ 5,104	\$ 4,743
Work in process	2,863	2,543
Finished goods	765	1,073
	\$ 8,732	\$ 8,359

NOTE 5 Note Receivable

During the second quarter of fiscal 2013, the Corporation sold two idle recreational vehicle facilities in Hemet, California. The sale of the facilities included a down payment of \$500,000 and a promissory note of \$1,700,000 to the Corporation. Selling expenses related to the sale, which were paid by the Corporation, were approximately \$152,000. This resulted in net cash received from the transaction of approximately \$348,000. The note bears an interest rate of 6 percent per annum, requires monthly payments following a 20 year amortization schedule, and provides for a final payment after 6 years. In addition, the two facilities are collateral for the note. The current and non-current balance of \$1,678,000 represents the original amount of the note less principal payments received through May 31, 2013.

NOTE 6 Property, Plant and Equipment

During the second quarter of fiscal 2013, the Corporation sold two idle recreational vehicle facilities located in Hemet, California for a gain of \$1,411,000. During the fourth quarter of fiscal 2013, an idle manufactured housing facility located in Mocksville, North Carolina was sold for a gain of \$230,000. During fiscal 2012, two idle housing facilities, one located in Ocala, Florida and one located in Ephrata, Pennsylvania were sold for gains of \$1,114,000 and \$1,386,000, respectively. In addition, an aircraft was sold for a gain of \$684,000.

NOTE 7 Other Assets

Other assets consist primarily of the cash surrender value of life insurance policies which aggregated \$6,231,000 and \$6,126,000 at May 31, 2013 and 2012, respectively.

NOTE 8 Warranty

A reconciliation of accrued warranty and related expenses is as follows:

Year ended May 31,	
2013	2012

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	(Dollars in thousands)	
Balance at the beginning of the period	\$ 5,870	\$ 4,966
Accruals for warranties	5,191	5,990
Settlements made during the period	(5,179)	(5,086)
Balance at the end of the period	5,882	5,870
Non-current balance included in other deferred liabilities	2,200	2,000
Accrued warranty and related expenses	\$ 3,682	\$ 3,870

Table of Contents**Skyline Corporation and Subsidiary Companies****Notes to Consolidated Financial Statements (Continued)****NOTE 9 Other Deferred Liabilities**

Other deferred liabilities consist of the following:

	May 31,	
	2013	2012
	(Dollars in thousands)	
Deferred compensation expense	\$ 5,869	\$ 6,011
Accrued warranty and related expenses	2,200	2,000
	\$ 8,069	\$ 8,011

Additional information regarding deferred compensation expense is in Note 14.

NOTE 10 Income Taxes

The Corporation had no federal and state income tax benefit for the years ended May 31, 2013 and 2012.

The difference between the Corporation's statutory federal income tax rate of 34 percent in fiscal 2013 and 2012, and the effective income tax rate is due primarily to state income taxes and changes in deferred tax assets valuation allowance and are as follows:

	Year ended May 31,	
	2013	2012
	(Dollars in thousands)	
Income taxes at statutory federal rate	\$ (3,574)	\$ (6,584)
State income taxes	93	(47)
State net operating loss	(605)	(1,047)
New Energy Efficient Home Credit	(91)	(117)
Alternative Fuel Credit		(12)
Other federal credits		(7)
Increase in deferred tax assets valuation allowance	4,189	7,436
Other, net	(12)	378
Income tax benefit	\$	\$
Effective tax rate	0%	0%

Table of Contents**Skyline Corporation and Subsidiary Companies****Notes to Consolidated Financial Statements (Continued)****NOTE 10 Income Taxes (Continued)**

Components of the net deferred tax assets include:

	2013	May 31, 2012
	(Dollars in thousands)	
Current deferred tax assets		
Accrued marketing programs	\$ 55	\$ 207
Accrued warranty expense	1,466	1,560
Accrued workers compensation	638	843
Accrued vacation	319	345
Other	143	180
Gross current deferred tax assets	2,621	3,135
Noncurrent deferred tax assets		
Liability for certain post-retirement benefits	2,252	2,286
Accrued warranty expense	876	807
Federal net operating loss carryforward	26,616	22,747
Federal tax credit carryforward	1,205	1,038
State net operating loss carryforward	7,380	6,775
Depreciation	735	755
Other	(43)	(90)
Gross noncurrent deferred tax assets	39,021	34,318
Total gross deferred tax assets	41,642	37,453
Valuation allowance	(41,642)	(37,453)
Net deferred tax assets	\$	\$

At May 31, 2013, the Corporation had gross federal net operating loss carryforwards of approximately \$78 million and gross state net operating loss carryforwards of approximately \$95 million. The federal net operating loss and tax credit carryforwards have a life expectancy of twenty years. The state net operating loss carryforwards have a life expectancy, depending on the state where a loss was incurred, between five and twenty years. If the Corporation, after considering future negative and positive evidence regarding the realization of deferred tax assets, determines that a lesser valuation allowance is warranted, it would record a reduction to income tax expense and the valuation allowance in the period of determination.

Income tax returns are filed in the U.S. federal jurisdiction and in several state jurisdictions. For the majority of taxing jurisdictions the Corporation is no longer subject to examination by taxing authorities for years before 2009. The Corporation did not incur any interest or penalties related to income tax matters in fiscal years 2013 and 2012.

The Corporation has no unrecognized tax benefits in its financial statements during fiscal years 2013 and 2012, and does not expect any significant changes related to unrecognized tax benefits in the twelve months following May 31, 2013.

Table of Contents**Skyline Corporation and Subsidiary Companies****Notes to Consolidated Financial Statements (Continued)****NOTE 11 Commitments and Contingencies**

The Corporation was contingently liable at May 31, 2013, under repurchase agreements with certain financial institutions providing inventory financing for dealers of its products. Under these arrangements, which are customary in the manufactured housing and recreational vehicle industries, the Corporation agrees to repurchase units in the event of default by the dealer at declining prices over the term of the agreement. The period to potentially repurchase units is between 12 to 24 months.

The maximum repurchase liability is the total amount that would be paid upon the default of the Corporation's independent dealers. The maximum potential repurchase liability, without reduction for the resale value of the repurchased units, was approximately \$71 million at May 31, 2013 and \$64 million at May 31, 2012. As a result of favorable experience regarding repurchased units, which is largely due to the strength of dealers selling the Corporation's products, the Corporation maintained at May 31, 2013 and 2012 a \$100,000 loss reserve that is a component of other accrued liabilities.

The risk of loss under these agreements is spread over many dealers and financial institutions. The loss, if any, under these agreements is the difference between the repurchase cost and the resale value of the units. The Corporation estimates the fair value of this commitment considering both the contingent losses and the value of the guarantee. This amount has historically been insignificant. The Corporation believes that any potential loss under the agreements in effect at May 31, 2013 will not be material to its financial position or results of operations.

The amounts of obligations from repurchased units and incurred net losses for the periods presented are as follows:

	Year ended May 31,	
	2013	2012
	(Dollars in thousands)	
Number of units repurchased	3	
Obligations from units repurchased	\$ 31	\$
Net losses on repurchased units	\$	\$

The Corporation is a party to various pending legal proceedings in the normal course of business. Management believes that any losses resulting from such proceedings would not have a material adverse effect on the Corporation's results of operations or financial position.

As referenced in Note 2, the Corporation pledged a \$600,000 certificate of deposit as security for certain performances in providing 60 manufactured homes to Oakridge Family Homes, L.P. The certificate of deposit will remain pledged until terms of the certificate of deposit proceeds and security agreement between the Corporation and Oakridge Family Homes, L.P. are completed, which is expected to occur by November 30, 2013.

The Corporation leases office and manufacturing equipment under non-cancelable operating lease agreements. Leases have various renewal terms, and generally provide that the Corporation pays the cost of insurance, taxes and maintenance. Lease expense totaled approximately \$372,000 and \$440,000 for fiscal years 2013 and 2012, respectively.

Table of Contents**Skyline Corporation and Subsidiary Companies****Notes to Consolidated Financial Statements (Continued)****NOTE 11 Commitments and Contingencies (Continued)**

Future minimum lease commitments under operating leases are as follows:

Year ending May 31,	Amount (Dollars in thousands)
2014	\$ 352
2015	269
2016	192
2017	95
2018	36
Thereafter	10
	\$ 954

The Corporation utilizes a combination of insurance coverage and self-insurance for certain items, including workers' compensation and group health benefits. Liabilities for workers' compensation are recognized for estimated future medical costs and indemnity costs. Liabilities for group health benefits are recognized for claims incurred but not paid. Insurance reserves are estimated based upon a combination of historical data and actuarial information. Actual results could differ from these estimates.

NOTE 12 Treasury Stock

The Corporation's Board of directors from time to time has authorized the repurchase of shares of the Corporation's common stock, in the open market or through negotiated transactions, at such times and at such prices as management may decide. In fiscal 2013 and 2012, the Corporation did not acquire any shares of its common stock. At May 31, 2013, the Corporation had authorization to repurchase an additional 391,300 of its common stock.

NOTE 13 401(K) Plan

The Corporation has an employee savings plan (the 401(k) Plan) that is intended to provide participating employees with an additional method of saving for retirement. The 401(k) Plan covers all employees who meet certain minimum participation requirements. The Corporation does not provide a matching contribution to the 401(k) Plan, but can make discretionary profit sharing contributions. No profit sharing contributions were made in fiscal 2013 and 2012.

NOTE 14 Retirement and Death Benefit Plans

The Corporation has entered into various arrangements with certain employees or former employees for benefits to be paid in the following manner:

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to an employee's estate in the event of death

to an employee in the event of retirement or disability to be paid over 10 years beginning at the date of retirement or disability

in the event of death, the employee's beneficiary will receive the balance due the employee. The Corporation also purchased life insurance contracts on the covered employees or former employees. The present value of the principal cost of such arrangements is being accrued over the period from the date of

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Skyline Corporation and Subsidiary Companies

Notes to Consolidated Financial Statements (Continued)

NOTE 14 Retirement and Death Benefit Plans (Continued)

such arrangements to full eligibility using a discount rate of 4.0 percent in fiscal 2013 and 4.5 percent in fiscal 2012. The current and non-current amounts accrued for such arrangements totaled \$6,309,000 and \$6,316,000 at May 31, 2013 and 2012, respectively. The amount charged to operations under these arrangements was \$187,000 and \$414,000 for fiscal 2013 and 2012, respectively.

NOTE 15 Industry Segment Information

The Corporation designs, produces and markets manufactured housing, modular housing and recreational vehicles (travel trailers, fifth wheels and park models). Manufactured housing represents homes built according to a national building code; modular housing represents homes built to a local building code. The percentage allocation of housing and recreational vehicle net sales is:

	Year Ended May 31,	
	2013	2012
Domestic Manufactured Housing		